


AR23

**1976  
Annual  
Report**

*fil*

***Lochiel Exploration Ltd.***





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# Lochiel Exploration Ltd.

## 1976 HIGHLIGHTS

	1976	1975	% Change
Gross revenue .....	\$1,805,535	\$1,041,315	+ 73%
Cash flow from operations per share .....	930,347 16¢	503,511 8.6¢	+ 85%
Income before extra- ordinary items .....	470,081	151,791	+ 209%
per share .....	8.1¢	2.6¢	
Shareholders equity .....	4,755,638	4,476,663	+ 6.2%
Property, plant & equipment .....	6,530,496	5,833,338	+ 12%
Land holdings			
Gross acres .....	2,958,444	2,859,244	+ 3%
Net acres .....	2,090,313	2,122,079	- 2%

## ACREAGE HOLDINGS

January 31, 1977

	Working Interest		Royalty
	Gross Acres	Net Acres	Gross Acres
<b>CANADA</b>			
Alberta .....	143,383	54,708	136,360
British Columbia .....	1,402	1,402	—
Saskatchewan .....	10,866	10,866	—
Arctic Islands .....	1,458,790	1,178,575	695,099
Beaufort Sea/Mackenzie Delta .	—	—	1,723,880
Northwest Territories .....	—	—	162,164
Yukon Territory .....	—	—	385,608
Pacific Offshore .....	—	—	243,386
Eastcoast Offshore .....	881,174	743,530	163,660
<b>INTERNATIONAL</b>			
North Sea (U.K.) .....	108,400	1,084	—
Italy .....	92,617	3,705	—
Turkey .....	122,932	73,760	—
Ghana .....	138,880	22,683	—
	<u>2,958,444</u>	<u>2,090,313</u>	<u>3,510,157</u>
Comparative holdings, January 31, 1976 .....	<u>2,859,244</u>	<u>2,122,079</u>	<u>4,646,088</u>



## TO THE SHAREHOLDERS:

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Lochiel Exploration Ltd. continued to move forward in 1976 on what your directors believe to be a steady upward trend in cash flow and earnings. The 1976 results reflect the company's success in development drilling and exploitation of its Alberta lands. A deliberate shift in emphasis from long term to current income producing properties is evident from the five year statistical summary shown elsewhere in this report.

Lochiel's major cash flow producing assets are its oil and gas reserves in Canada, in particular the 50% owned 30,000-acre property at Atlee-Buffalo, in southeastern Alberta, where 32 natural gas wells are currently in production. A heavy oil discovery in the area last year is to be tested further. Elsewhere in Alberta, your company expects to participate in five wildcat tests to be drilled during the next few months.

Exploration activity in Alberta continues at a high level. Provincial government regulations have tended to accelerate development of gas reserves but are holding back medium to heavy oil development. Consequently, Alberta has millions of barrels of heavy oil reserves, recoverable at, probably, one-half of Syncrude's cost, lying in the ground, and, at the same time, a deliverability surplus of natural gas, which is causing delays in securing gas sales contracts. Lochiel's program for 1977 takes account of this situation.

In federally controlled frontier areas exploratory activities declined during 1976, mainly due to the continued absence of regulations governing exploration on federal lands. Panarctic Oils Ltd. carried on with delineation and development drilling in the Hecla and Bent Horn fields. Of particular interest to Lochiel is the joint venture agreement concluded by Imperial Oil Ltd., Gulf Oil Canada Ltd., Panarctic and PetroCanada, Canada's national oil company, under which more than \$80 million will be spent on Arctic Islands exploration. The program calls for annual expenditures of \$20 million on exploration covering in excess of 33 million gross acres held by Sun Oil Ltd. and Global Arctic Islands Ltd., including 1.1 million acres owned by Lochiel. The multi-well drilling program, of which Panarctic is the operator, has as its main objective the

establishment of threshold reserves sufficient to warrant construction of liquification facilities for movement of gas by ships and/or a Polar Gas pipeline to connect the islands with southern markets. Your directors anticipate that exploration on Lochiel's acreage, spread throughout the Arctic Islands, will pick up in the coming year.

In the United Kingdom sector of the North Sea, where Lochiel owns a one percent working interest in Blocks 21/1 and 21/6, delineation drilling of the Buchan field on Block 21/1 continued in 1976. The well 21/1-4 contacted the pay section about 2,000 feet above the reservoir water line, higher than in any earlier test. Oil shows in a new wildcat test drilled north of the Buchan structure indicate the probability of another oil field. Development plans for the Buchan field are progressing, with a production start expected towards the end of 1978. Lochiel's share of development costs is estimated at \$1.2 million. It is expected that this amount will be recovered in the first full year of production.

Lochiel continued its exposure to other international plays. Applications for concessions were made in Spain and Australia. Geophysical operations are progressing favourably in Turkey, a dry hole was drilled in Italy, and no further participation is contemplated in the Ireland and Ghana prospects.

Cominco has extended for another year its option on your company's Baker Lake uranium properties. To date Cominco has spent more than \$1.4 million on exploration of Lochiel's holdings.

Your directors anticipate that 1977 will be one of the most expansionary years in Lochiel's history.

Mr. R. Dodwell, who has been a director of the company for many years, has decided not to stand for re-election to the board. I would like to thank him for his many and valued contributions to the success of Lochiel. The other directors join me in wishing him every success in his new ventures.

On behalf of the Board

Nicholas W. Taylor  
President



# EXPLORATION REVIEW

## ARCTIC ISLANDS

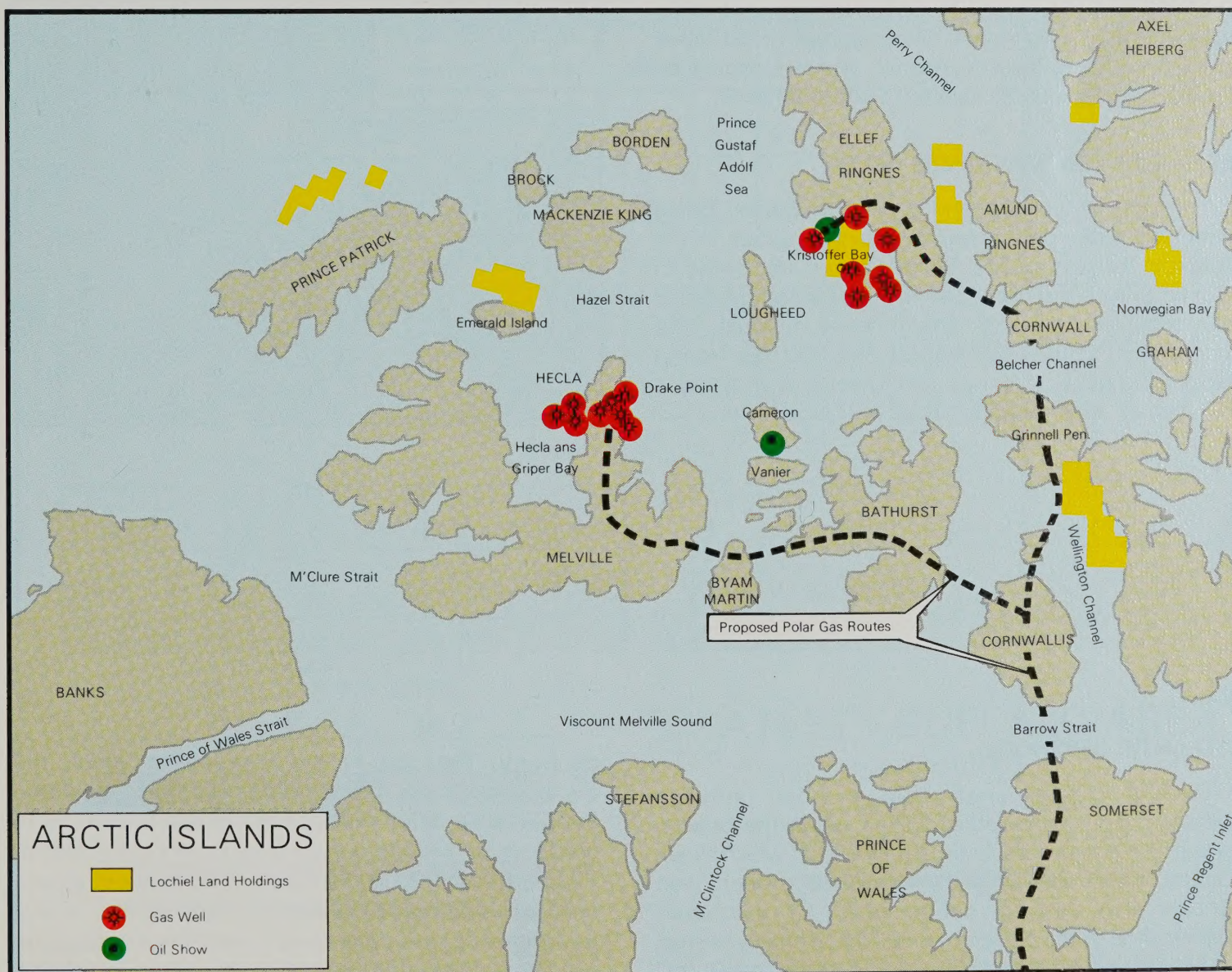
Exploration in Canada's north received significant impetus with announcements in recent weeks of major agreements involving more than \$100 million in new capital being made available for exploration commitments over the next few years. In addition, substantial progress has been made during the past year in proving up threshold reserves of natural gas, which are now estimated to total 16.1 trillion cubic feet.

The most important development was the creation of a new consortium to continue exploration throughout the islands. Panarctic Oils Ltd. will act as operator for the group consisting of PetroCanada, Gulf Oil Canada Ltd., Imperial Oil Ltd., and Sun Oil Ltd. The project will involve annual expenditures of \$20 million over four to six years for offshore exploration on some 33 million acres held by Sun Oil and Global Arctic Islands Ltd. Lochiel has contributed 1.1 million acres to this joint venture as shown on the adjoining map.

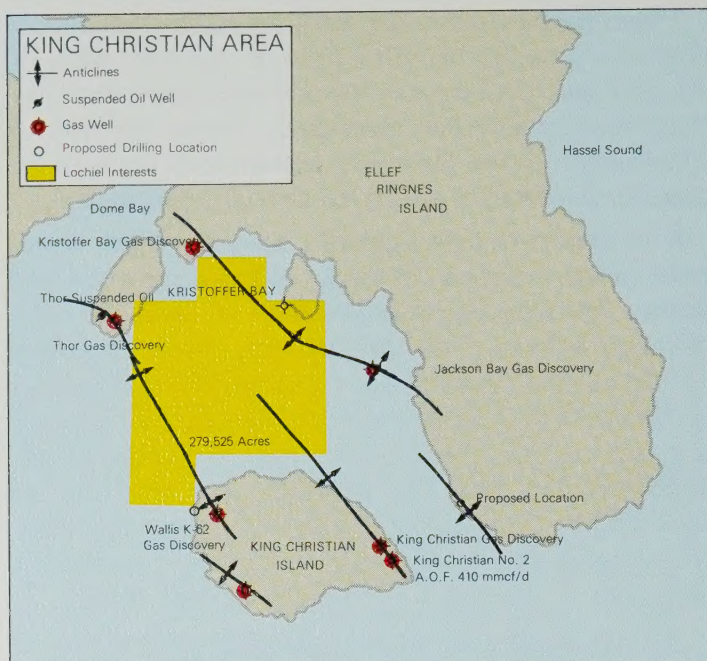
These developments are likely to boost Panarctic's exploratory budget to \$70 million or more for each of the next several years and will add strength to the task of proving up sufficient reserves to enable the start of construction of the Polar Gas pipeline or a liquification plant for shipment of gas by ice-strengthened tankers.

It is expected that Lochiel's King Christian Island block, which is not part of the 1.1 million acres mentioned earlier, will also figure prominently in upcoming exploration activity. This 292,000 acre block, in which Lochiel owns a 3 percent overriding royalty, that may be converted to a 12 percent working interest after the sale of production starts, is now completely surrounded by gas discoveries on land and offshore. The last test, at Jackson Bay, 5 miles east of Lochiel's permit boundary encountered a substantial pay thickness and a reservoir estimated to contain 1.1 trillion cubic feet of gas.

An industry group has concluded the second year of a \$42 million three year seismic program. Approximately 6,000 miles of seismic has been shot to date, with a further 2,000 miles planned for 1977. It is reported that the







program has already shown numerous attractive prospects in the inter-island areas.

Panarctic, PetroCanada, and Alberta Gas Trunk Line Co. Ltd., are studying the feasibility of a gas gathering system in the Arctic Islands. The proposal would move gas from existing fields to a plant, where it would be liquified and moved by tanker to the Maritimes.

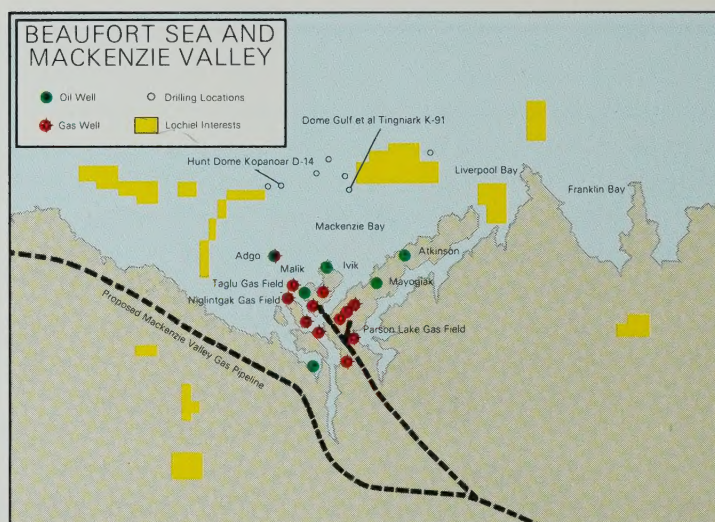
## BEAUFORT SEA/MACKENZIE DELTA

In spite of technical and political problems, Dome Petroleum Ltd. commenced its drilling program in the Beaufort Sea during 1976. Dome's subsidiary, Canadian Marine Drilling Ltd., spudded five locations and drilled two tests with three ice strengthened drillships. The Tingmiark K-91 well, located less than 15 miles from a block in which Lochiel owns an interest, was drilled in 100 feet of water to a depth of 10,000 feet, where it

encountered a high pressure gas zone. The test was suspended for re-entry in the summer of 1977. The Kopanoar D-14 test was located 20 miles east of a Lochiel permit. It was drilled to a depth of 3,760 feet, but encountered a high pressure fresh water flow from a zone at a shallow depth and was abandoned. A new test was spudded 600 feet from the original site and was drilled to 1250 feet for re-entry this summer. A third location, at Nektaralik K-59, 20 miles east of another Lochiel permit, was drilled to 1,110 feet before the end of the short drilling season.

Lochiel owns overriding royalties and carried working interests in some 1.7 million acres in this area, which is believed to have a hydrocarbon potential equivalent to other major oil and gas producing areas in the world. Extensive seismic coverage has delineated a large number of structures with great areal extent. The region appears prone to high pressures at shallow depths which have hampered drilling operations.

Dome has invested more than \$200 million in its fleet which is expected to drill and complete up to five wells during the coming summer season.



discovery. The size of the reservoir in which the discoveries have been made has not yet been established, but the incidence of hydrocarbons in these few tests, spread over a huge area, is very encouraging.

Unfortunately, jurisdictional disputes between federal and provincial governments, as well as the federal government's seven year delay in reaching a decision on new regulations, have caused a slow-down in activity.

## ATLANTIC OFFSHORE

Lochiel continues to hold a good acreage representation on the Labrador shelf, where the Eastcan group has to date completed eight wells, of which three, Gudrid, Bjarni and Snorri, were gas discoveries, with Snorri also testing condensate. Of particular significance to the company is its 75% working interest in 550,000 acres located 30 miles east of the Gudrid



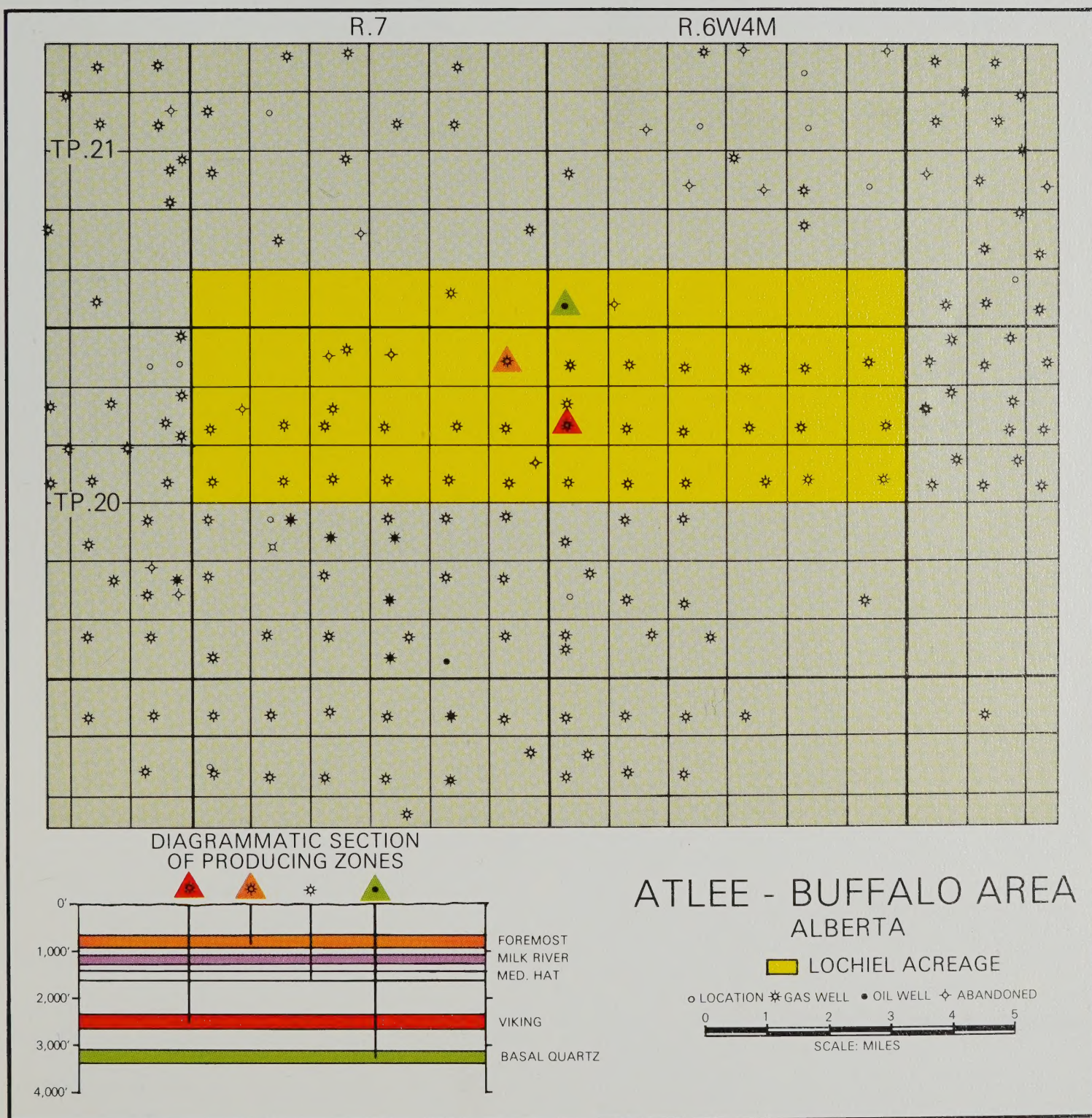
# ALBERTA EXPLORATION & DEVELOPMENT

## ATLEE BUFFALO (Southeastern Alberta)

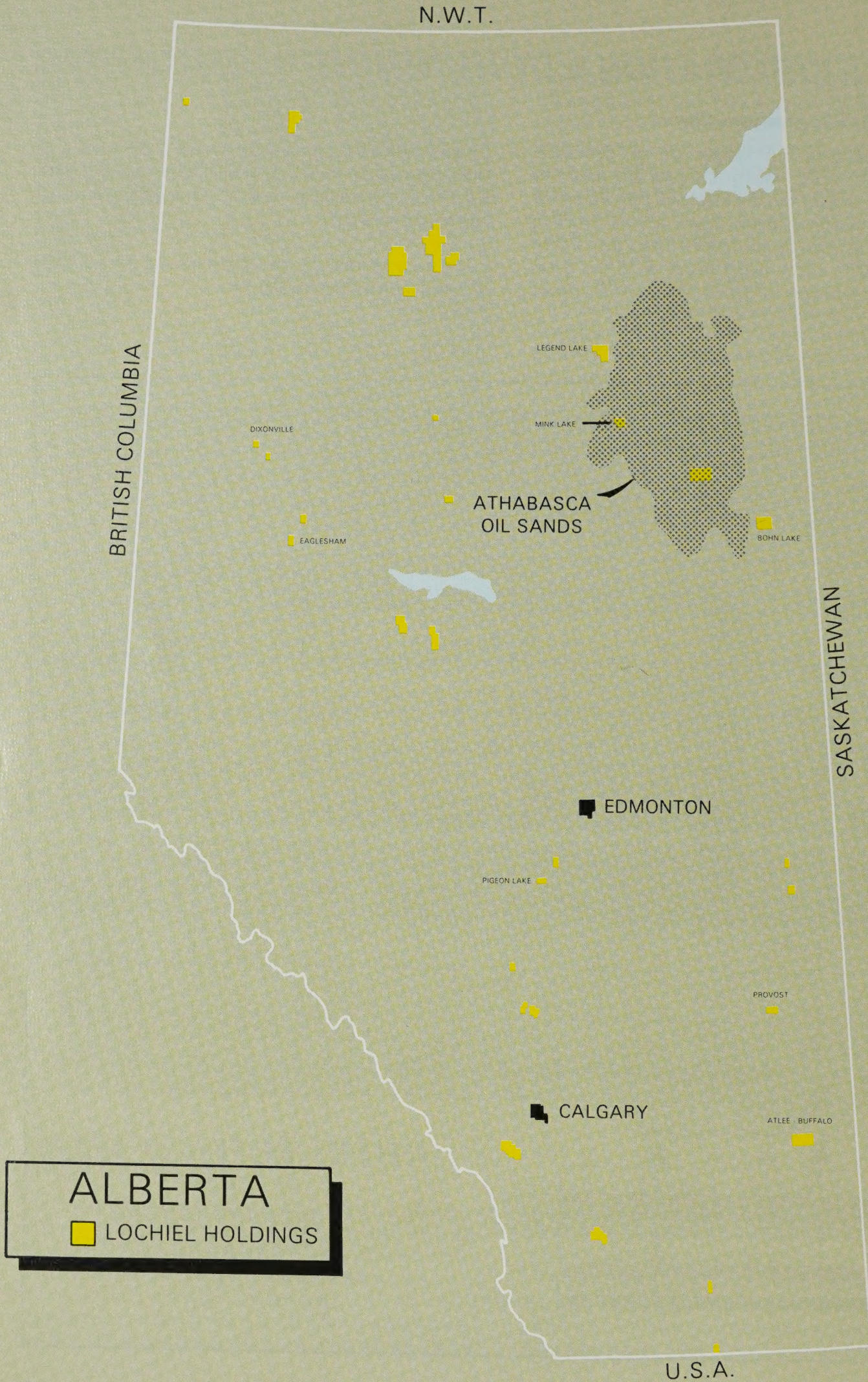
Lochiel is carrying out studies on all geological horizons in this block, where 32 wells are presently producing natural gas from the Medicine Hat, Foremost and Viking formations. Lochiel owns a 50% working interest in 30,720 acres in this area. A deep test, drilled in the fall of 1976, encountered heavy oil in the Basal Quartz zone in addition to gas in shallower horizons.

Under present gas purchase contracts Lochiel has considerable latitude in selling additional volumes of gas. Existing compression facilities are also capable of handling higher volumes.

It is expected that production of natural gas from this area will be increased during 1977.



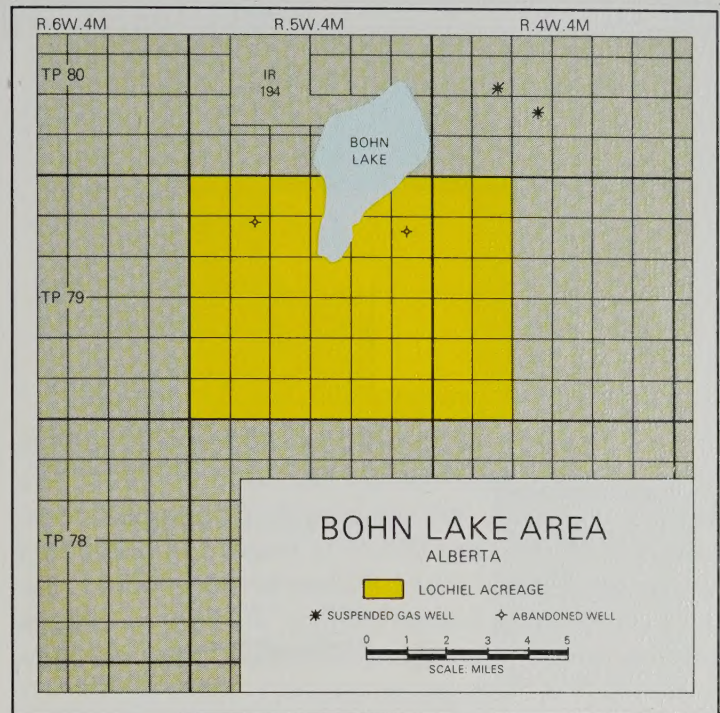






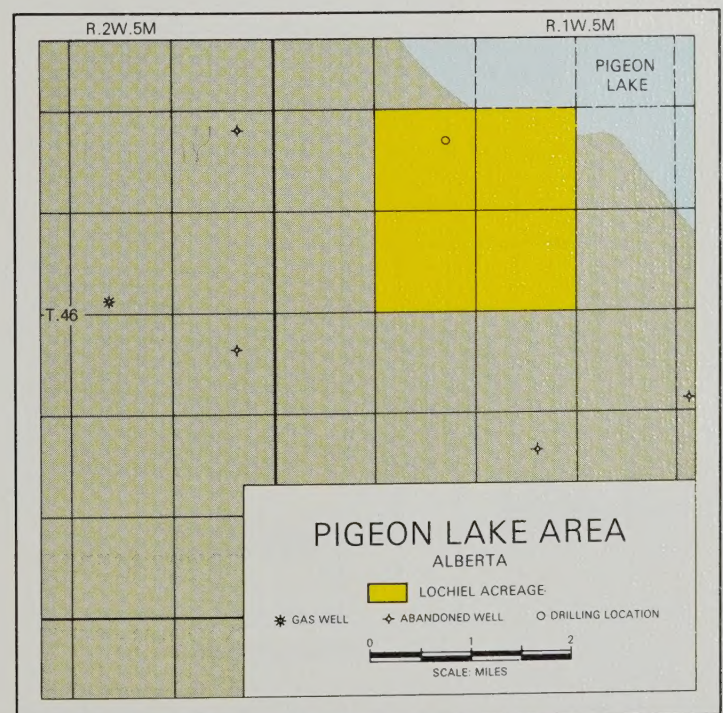
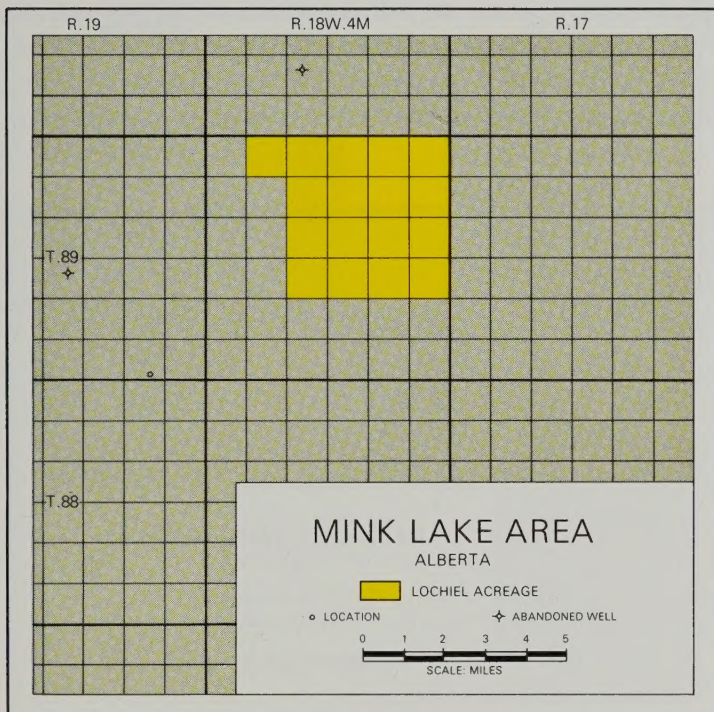
## BOHN LAKE (Northeastern Alberta)

This 28,000 acre petroleum and natural gas reservation located on the southern boundary of the Athabasca Oil sands will be further evaluated with a second test during the winter of 1977/78. A well drilled in 1976 failed to locate gas. Both wells are at no expense to the company, being drilled by others to earn an interest in the lands.



## MINK LAKE (Northeastern Alberta)

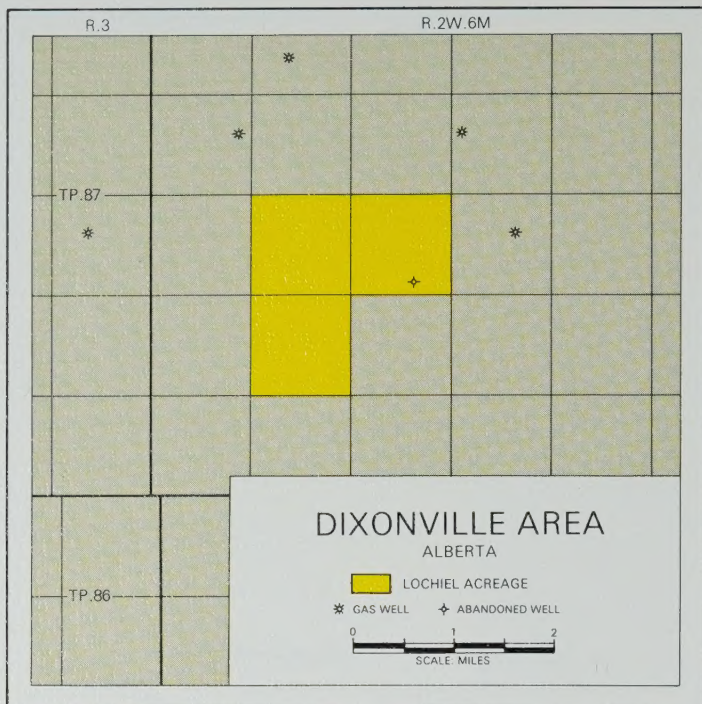
One well will be drilled on Lochiel's 10,880 acre reservation next winter to test the shallow Devonian Grosmont formation which has natural gas potential.



## PIGEON LAKE (Central Alberta)

A 5800 ft. exploratory test will be drilled shortly on this prospect in central Alberta. Lochiel pooled its two 100% owned sections with 2 adjacent sections, and a third party will drill the test, at no cost to the land owners, in order to earn an interest.



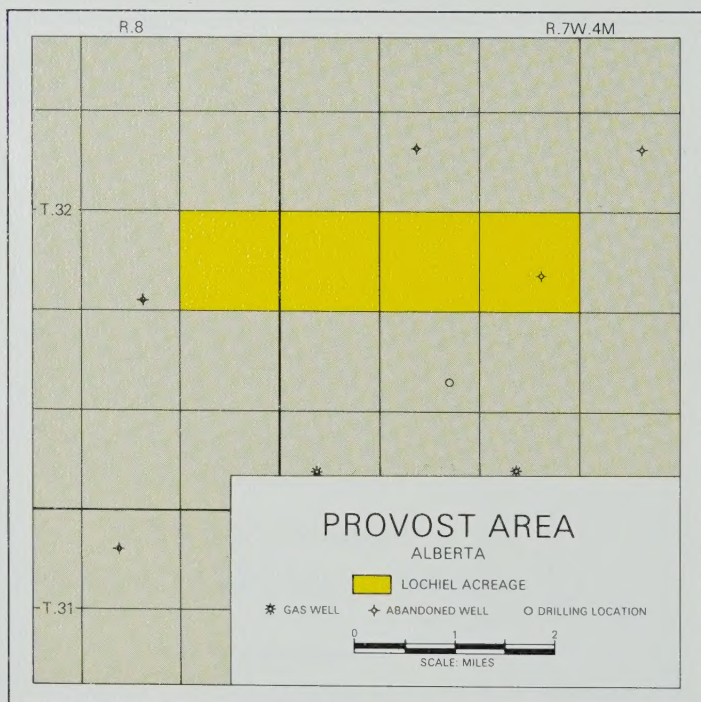
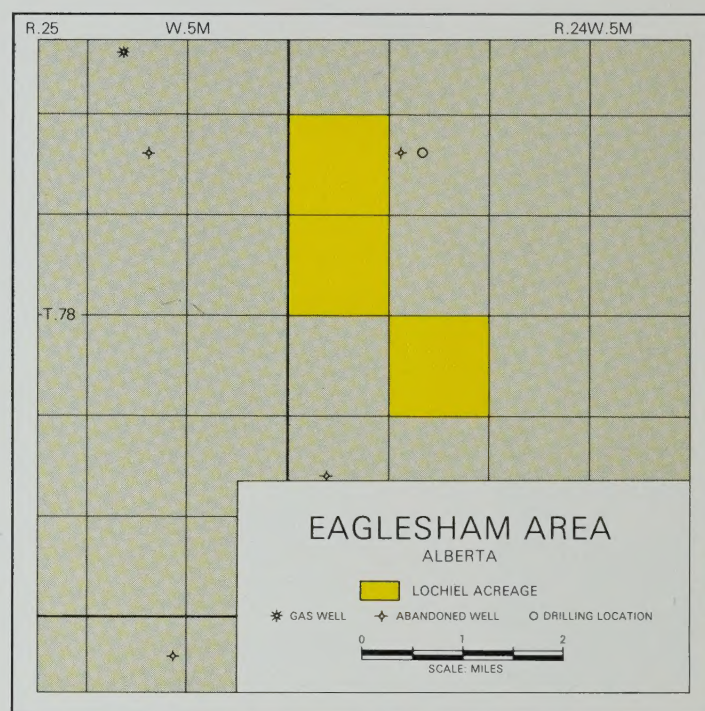


### DIXONVILLE (Northwestern Alberta)

Lochiel has granted an option on its 3 section block to a neighboring land owner, who is presently drilling an offsetting test. If he exercises the option to drill a test at no expense to Lochiel on the block, he will earn an interest.

### EAGLESHAM (Northwestern Alberta)

The company has granted an option to conduct a seismic survey on this property. Under the option, the farmee has the right to drill a well at his own cost and expense to earn an interest in the acreage.



### PROVOST (Eastern Alberta)

A well offsetting Lochiel's acreage will be drilled shortly. The company has granted an option to drill another test on its own acreage. An earlier well drilled on Lochiel lands during 1976, at no expense to the company, failed to find hydrocarbons.

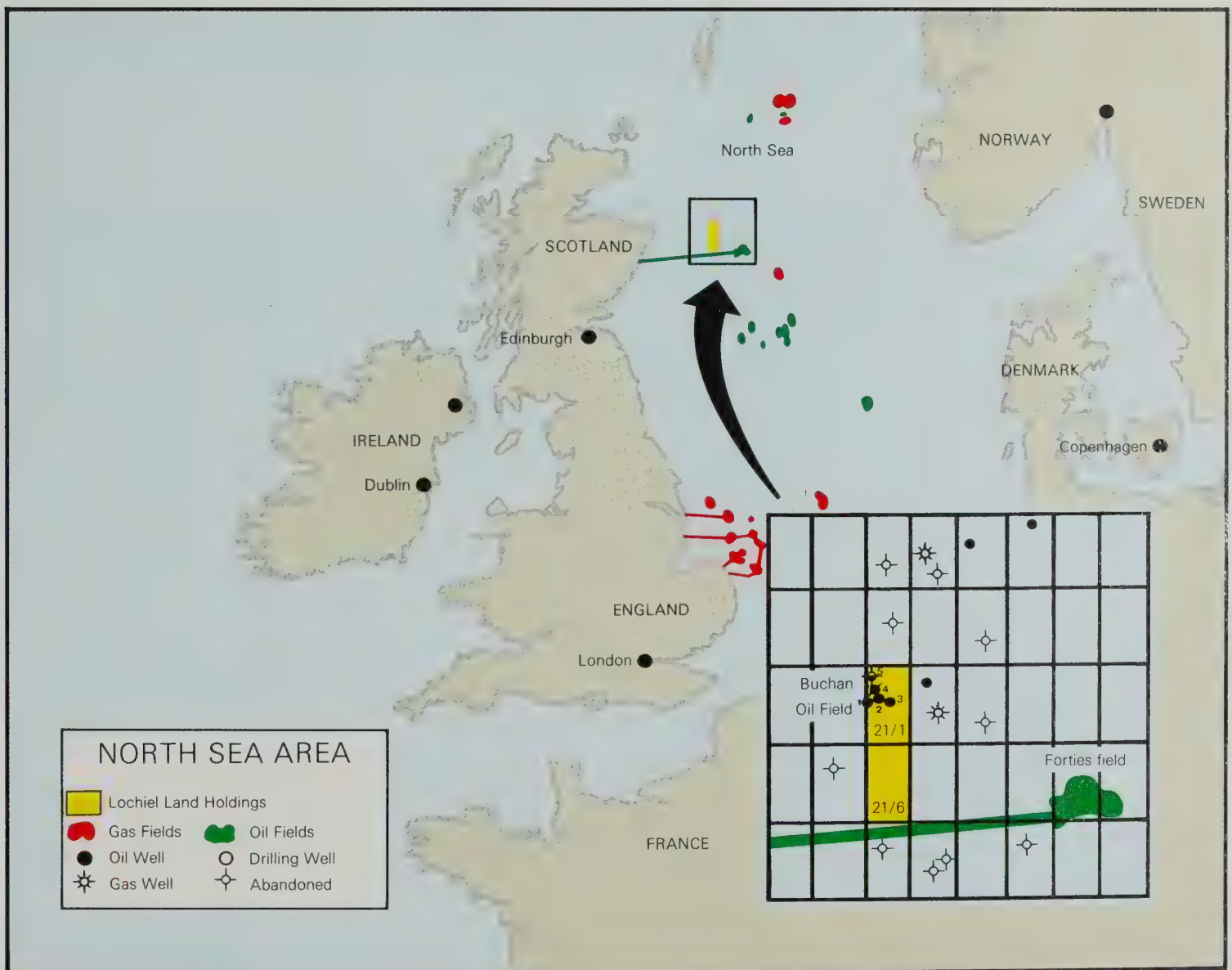


# FOREIGN EXPLORATION & DEVELOPMENT

## NORTH SEA

Final evaluation of floating production platform systems for the Buchan field on UK Block 21/1 is nearly complete. The facility to be used should be selected during the first half of 1977. Two wells were drilled on this block during 1976. A delineation well on the Buchan structure, 21/1-4, contacted the pay section about 2,000 feet above the reservoir water line, much higher than in any earlier test. Due to mechanical problems and bad weather conditions the test had to be suspended for

possible re-entry this year. A new wildcat test, 21/1-5, was drilled north of the Buchan field. It encountered non-commercial oil shows in the Jurassic and was abandoned at a depth of 14,100 feet. The incidence of hydrocarbons in this new structure is encouraging and appears to indicate another field. Further exploration work has been carried out on block 21/6 which adjoins 21/1 to the south. Two exploratory tests are planned to be drilled in 1977. Lochiel holds a 1% working interest in both blocks.





## SPAIN

Lochiel has formed two consortia which made applications for concessions in Spain. One group applied for offshore rights in the Bay of Biscay in the Atlantic, the other is seeking a concession in the Balearic Sea, off the Spanish east coast. The outcome of these applications will be known shortly.

## AUSTRALIA

Lochiel, together with Bow Valley Industries Ltd. and Pembina Pipe Line Ltd., of Calgary, have joined two Australian companies in an application for a 60,000 square mile concession on the offshore shelf in northwestern Australia. The result of this application is expected shortly.

## ITALY

In consideration of a seismic program and one unsuccessful test drilled during 1976, AGIP SpA, the Italian state oil company, became a partner in our permit #BR87SE, covering 92,600 acres in the Adriatic Sea. AGIP is the operator of this permit in which Lochiel's interest is now 4%.

## TURKEY

During 1976 a gravity survey was completed on Lochiel's concession in eastern Turkey. Preliminary interpretation of the survey indicates good prospects, some of which may warrant a follow-up.

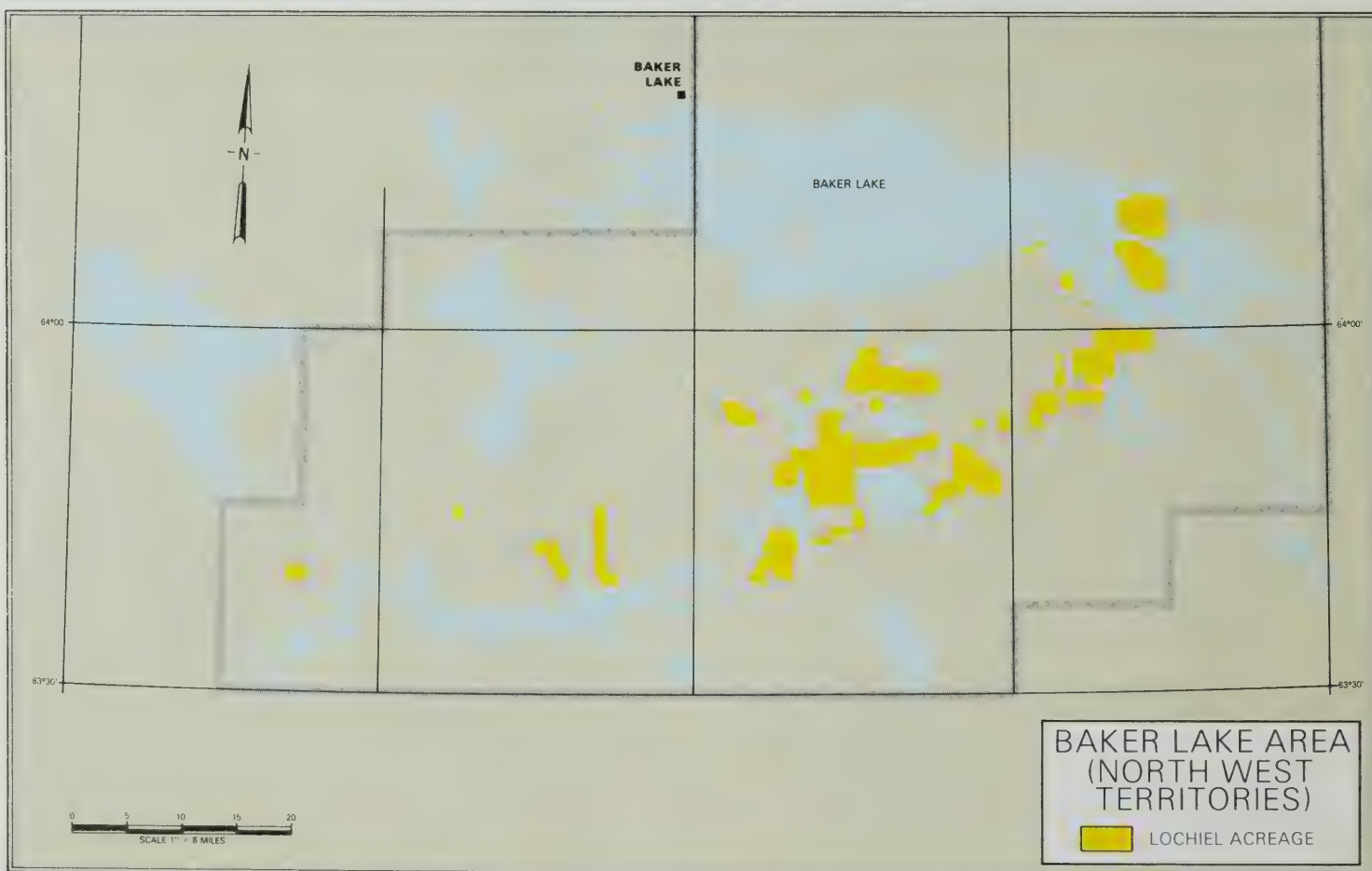
## OTHER AREAS

A group application for a concession in the Irish Sea, in which Lochiel participated was unsuccessful.

The concession offshore Ghana in West Africa was surrendered during 1976.

## MINING EXPLORATION

Exploration for uranium at Baker Lake on the western shore of Hudson Bay in the Northwest Territories continued during 1976. Lochiel has an 8.6% participation in 288,000 acres being explored by Cominco Ltd. Drilling carried out during 1975 and 1976 confirmed uranium mineralization at two locations. Cominco, who has an option to spend \$5 million on the project to earn a 55% interest, has so far spent approximately \$1.4 million.



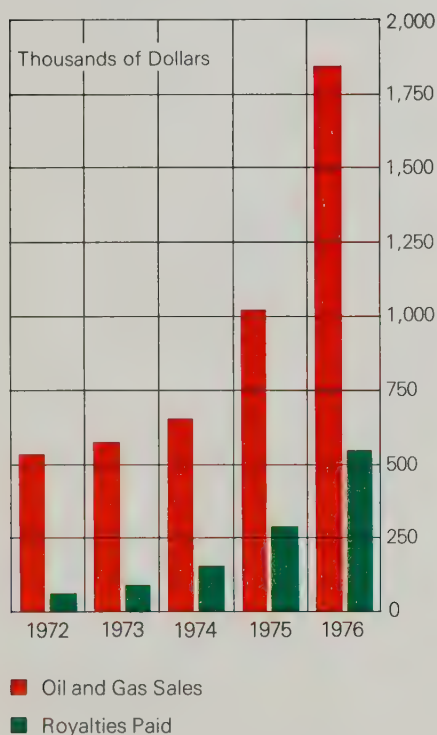


## FIVE YEAR HISTORICAL SUMMARY

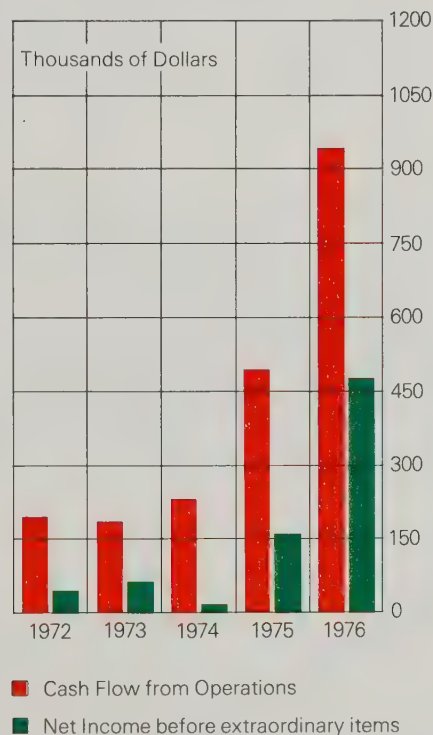
	1976	1975*	1974*	1973	1972
Oil & gas sales . . . . .	1,805,535	1,041,315	655,296	536,290	514,997
Royalties paid . . . . .	536,830	264,286	136,542	77,018	64,775
Total net revenue . . . . .	1,333,857	779,025	531,897	481,073	489,713
Operating costs . . . . .	201,412	172,497	142,612	111,961	130,164
General & administrative costs . . . . .	139,250	96,715	99,536	87,871	91,941
Interest paid . . . . .	122,781	77,944	100,691	79,671	58,606
Cash flow from operations . . . . .	930,347	503,511	247,131	201,570	209,002
Per share . . . . .	16.0¢	8.6¢	4.4¢	3.6¢	4.0¢
Depletion, depreciation & write-offs . . . . .	288,863	249,153	172,066	89,648	119,454
Deferred income tax, net . . . . .	111,470	30,925	33,084	37,230	31,500
Net income before extraordinary items . . . . .	470,081	151,791	(16,092)	74,692	58,048
Extraordinary items . . . . .	—	257,158	—	—	—
Net income . . . . .	470,081	(105,367)	(16,092)	74,692	58,048
Per share . . . . .	8.1¢	(1.8¢)	(0.3¢)	1.3¢	1.1¢
Capital expenditures . . . . .	697,158	612,451	341,329	1,015,643	908,638
Working capital . . . . .	428,974	186,983	153,083	165,810	630,679
Fixed assets . . . . .	6,530,496	5,833,338	5,274,191	5,076,852	4,170,988
Outstanding shares . . . . .	5,679,326	5,828,126	5,803,126	5,592,926	5,362,726
LAND HOLDINGS . . . . .					
Gross acres . . . . .	2,958,444	2,859,244	7,880,619	8,649,606	10,077,988
Net acres . . . . .	2,090,313	2,122,079	5,553,855	5,819,106	6,700,991

\* Restated

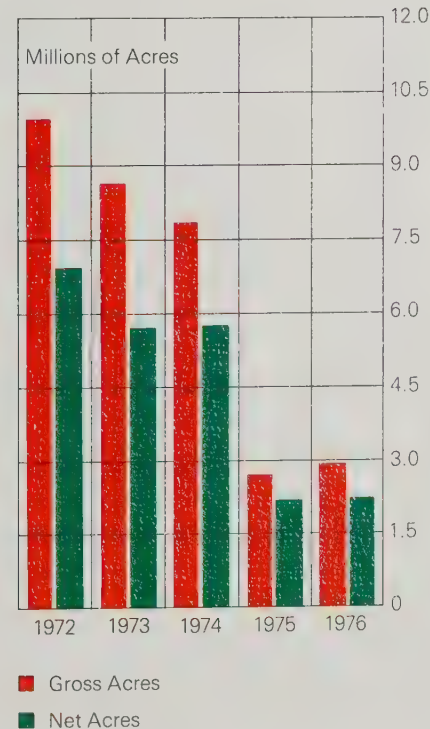
SALES AND ROYALTIES



CASH FLOW AND NET INCOME



LAND HOLDINGS





# FINANCIAL REVIEW

Lochiel's gross revenue from sales in 1976 reached a record \$1,805,000, an increase of 73% from \$1,041,000 in 1975.

Net income for 1976 amounted to \$470,000 or 8.1¢ per share compared to a loss of \$105,000 in 1975. Last year's loss was due to an extraordinary item of \$257,000.

Net income, in addition to depletion, depreciation and other charges which did not involve current expenditures, accounted for a cash flow from operations totalling \$930,000 or 16¢ per share compared to \$504,000 or 8.6¢ per share in 1975. Sources of funds totalled in excess of \$1.6 million, including increases in production loans and proceeds from sale of securities.

During 1976 the company expended almost \$700,000 for both property additions and exploration activity, raising total investment in property, plant and equipment to \$6.5 million.

Royalties and mineral taxes amounted to 30% of

sales in 1976, compared to 25% in 1975. Provision for income taxes was \$234,000. Provincial royalty tax rebates amounted to \$122,000. Due to the available exploration and capital expenditure tax credits, payment of income tax has been deferred to the future.

## 1977 OUTLOOK

Further price increases for natural gas and crude oil are likely during 1977. The increased cash flow from an expanded exploration and development program, in addition to Lochiel's capacity to borrow against proven reserves, will enable the company to fund its anticipated 1977 program.

Lochiel is in a good position to attract private and corporate investment funds for commitment alongside its own growing cash resources. These funds are becoming available due to changes and refinements in Canadian tax legislation.

## AUDITORS' REPORT

The Shareholders,  
Lochiel Exploration Ltd.

We have examined the consolidated balance sheet of Lochiel Exploration Ltd. as at January 31, 1977 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
March 21, 1977

Touche, Ross & Co.  
Chartered Accountants



# Lochiel Exploration Ltd.

## CONSOLIDATED STATEMENT OF INCOME

for the year ended January 31, 1977

	<u>1977</u>	<u>1976</u>
<b>Revenue</b>		
Oil and gas sales .....	\$1,805,535	\$1,041,315
Less royalties and mineral taxes .....	<u>536,830</u>	<u>264,286</u>
Net sales .....	1,268,705	777,029
Other income .....	2,602	1,996
Gain on sale of investments .....	<u>62,550</u>	<u>—</u>
	<u>1,333,857</u>	<u>779,025</u>
<b>Expenses</b>		
Operating — lifting costs .....	172,045	144,622
— lease rentals and taxes .....	<u>29,367</u>	<u>27,875</u>
General and administrative .....	139,250	96,715
Interest on long-term financing .....	122,781	77,944
Depletion and depreciation .....	<u>288,863</u>	<u>249,153</u>
	<u>752,306</u>	<u>596,309</u>
<b>Income before income taxes and extraordinary item . . .</b>	<b>581,551</b>	<b>182,716</b>
<b>Income taxes</b>		
Current — Provincial royalty tax rebate .....	(122,483)	(71,642)
Deferred .....	<u>233,953</u>	<u>102,567</u>
	<u>111,470</u>	<u>30,925</u>
<b>Net income before extraordinary item .....</b>	<b>470,081</b>	<b>151,791</b>
<b>Extraordinary item</b>		
Provision for loss due to decline in market value of investments .....	<u>—</u>	<u>257,158</u>
<b>Net income (loss) for the year .....</b>	<b><u>\$ 470,081</u></b>	<b><u>\$ (105,367)</u></b>
Income (loss) per share (based on average number of shares outstanding during the year)		
Before extraordinary item .....	8.1¢	2.6¢
Extraordinary item .....	<u>—</u>	<u>(4.4¢)</u>
Net income (loss) per share .....	<u>8.1¢</u>	<u>(1.8¢)</u>

## CONSOLIDATED STATEMENT OF DEFICIT

for the year ended January 31, 1977

Deficit at beginning of year .....	\$1,121,803	\$1,016,436
Net earnings (loss) for the year .....	<u>470,081</u>	<u>(105,367)</u>
Deficit at end of year .....	<u>\$ 651,722</u>	<u>\$1,121,803</u>



# *Lochiel Exploration Ltd.*

## CONSOLIDATED BALANCE SHEET

as at January 31, 1977

### ASSETS

	<u>1977</u>	<u>1976</u>
<b>Current assets:</b>		
Cash and term deposits .....	\$ 105,450	\$ —
Accounts receivable — trade .....	201,806	221,377
Provincial royalty tax rebate .....	190,336	129,715
Prepaid expenses .....	<u>5,934</u>	<u>3,610</u>
	503,526	354,702
 Investments and long-term receivables (Note 2) .....	 522,642	 614,951
 <b>Property, plant and equipment at cost (Note 1)</b>		
Oil and gas properties .....	5,495,109	4,850,648
Production equipment .....	1,026,341	973,644
Other .....	<u>9,046</u>	<u>9,046</u>
	6,530,496	5,833,338
 Less accumulated depletion and depreciation .....	 <u>1,163,126</u>	 <u>874,263</u>
	5,367,370	4,959,075
	 <u><u>\$6,393,538</u></u>	 <u><u>\$5,928,728</u></u>

### SIGNED ON BEHALF OF THE BOARD

N. W. Taylor, Director

W. A. Work, Director



## LIABILITIES

	<u>1977</u>	<u>1976</u>
<b>Current liabilities:</b>		
Bank advances .....	\$ —	\$ 30,867
Accounts payable .....	<u>74,552</u>	<u>136,852</u>
	74,552	167,719
 <b>Prepaid production revenue</b> .....	 126,293	 200,000
 <b>Long-term debt</b> (Note 3)		
Production loans .....	898,442	779,686
 <b>Deferred income taxes</b> .....	 <u>538,613</u>	 <u>304,660</u>
<b>Total liabilities</b> .....	<u>1,637,900</u>	<u>1,452,065</u>

## SHAREHOLDERS' EQUITY

### Capital stock (Note 4)

Authorized		
10,000,000 shares of no par value		
Issued		
5,679,326 shares (1976 - 5,828,126) .....	5,407,360	5,598,466
Deficit .....	<u>(651,722)</u>	<u>(1,121,803)</u>
	4,755,638	4,476,663
	<u><u>\$6,393,538</u></u>	<u><u>\$5,928,728</u></u>



# *Lochiel Exploration Ltd.*

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended January 31, 1977

	<u>1977</u>	<u>1976</u>
<b>Sources of funds</b>		
From operations		
Net income before extraordinary item	\$ 470,081	\$ 151,791
Add items not requiring current outlay of funds		
Depletion and depreciation . . . . .	288,863	249,153
Deferred income taxes . . . . .	233,953	102,567
Gain on sale of investments . . . . .	(62,550)	—
<b>Cash flow from operations . . . . .</b>	<b>930,347</b>	<b>503,511</b>
Issue of shares . . . . .	18,500	27,500
Increase in production loans . . . . .	513,898	326,000
Decrease in investments and long-term receivables . .	187,695	—
Prepaid production revenue . . . . .	—	200,000
Net proceeds from farmouts . . . . .	—	53,304
	<u>1,650,440</u>	<u>1,110,315</u>
<b>Uses of funds</b>		
Property, plant and equipment . . . . .	697,158	612,451
Repayment of production loans . . . . .	395,142	420,301
Increase in investments and long-term receivables . .	32,836	43,663
Reduction of prepaid production revenue . . . . .	73,707	—
Cancellation of shares . . . . .	209,606	—
	<u>1,408,449</u>	<u>1,076,415</u>
Increase in working capital . . . . .	241,991	33,900
Working capital at beginning of year . . . . .	186,983	153,083
Working capital at end of year . . . . .	<u>\$ 428,974</u>	<u>\$ 186,983</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended January 31, 1977

### 1. Summary of Significant Accounting Policies

#### (a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Lochiel Exploration (U.K.) Limited and Lochiel Oil and Gas (1972) Ltd. (presently inactive).

#### (b) Exploration and Development Costs

The Company follows the full cost method of accounting. Under this concept, all costs relating to the exploration for and the development of oil and gas reserves, including related overhead costs, are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

#### (c) Depletion and Depreciation

Depletion of exploration and development costs and depreciation of production equipment related to Canadian operations, except frontier areas, are computed under the unit of production method based on estimated proven oil and gas reserves. Costs related to Canadian frontier areas and foreign areas are carried in separate cost centres on which amortization is deferred pending the outcome of exploration.

#### (d) Deferred Income Taxes

The Company follows the tax allocation method of recording income taxes for all timing differences between accounting income and taxable income.

#### (e) Financial Statement Presentation

The prior years financial statements have been restated to conform with the current years presentation.

### 2. Investments and Long-term Receivables

	<u>1977</u>	<u>1976</u>
Investment and advances — Petromines Ltd. . . . .	\$217,245	\$203,421
Investment in shares of other companies . . . . .	712	60,200
Notes receivable from employees, at cost . . . . .	280,335	326,980
Refundable deposits, at cost . . . . .	<u>24,350</u>	<u>24,350</u>
	<u>\$522,642</u>	<u>\$614,951</u>



The Company holds 903,281 shares (approximately 25%) of the issued capital of Petromines Limited, of which 374,281 shares are subject to an escrow agreement. These shares have been recorded at cost less a valuation allowance of \$182,027.

During the year the Company sold investments in shares of other companies for an amount of \$122,550, which had a book value of \$60,000.

Notes receivable from employees totalling \$280,335 remain outstanding as consideration for shares purchased under employee stock purchase plans. The notes are non-interest bearing and mature between 1980 and 1984.

### 3. Long-term Debt

The bank production loans are evidenced by demand promissory notes and are secured on assignment of book debts and by oil and gas properties. The loans are repayable out of future production proceeds and accordingly, are not expected to require the use of existing working capital.

### 4. Capital Stock

	<u>1977</u>		<u>1976</u>	
	<u>Number of Shares</u>	<u>Share Capital</u>	<u>Number of Shares</u>	<u>Share Capital</u>
Balance at beginning of year . . . . .	5,828,126	\$5,598,466	5,803,126	\$5,570,966
Issued for cash under Employee Stock Option . .	10,000	18,500	—	—
Cancelled and returned to treasury - (see below) . . .	(158,800)	(209,606)	—	—
Issued for an interest in oil and gas properties . . . .	—	—	25,000	27,500
	<u>5,679,326</u>	<u>\$5,407,360</u>	<u>5,828,126</u>	<u>\$5,598,466</u>

As at January 31, 1976 the Company's banker held 170,000 shares as partial security for the repayment of bank loans made to Taiga Resources Inc. pursuant to which the Company acquired oil and gas interests in the North Sea and Italy. The bank was entitled to dispose of these shares at a price per share of \$1.32 or more and reduce the bank loan by the proceeds at any time up until January 31, 1977, whereupon the balance of the shares would be returned to the company for cancellation, and the related portion of the loan retired. During the year ended January 31, 1977, the bank sold 11,200 shares and subsequent to January 31, 1977 the remaining shares were returned to the Company by way of gift for cancellation and the related bank loan repaid by the Company. The effect of this transaction has been recorded in the financial statements of the Company as at January 31, 1977.

Under the Employee Share Purchase Plan, 10,000 shares remain reserved for issue in the future.

### 5. Contingent Liabilities

The Company has issued non-interest bearing promissory notes and guarantees totalling \$214,670 in favour of various government authorities. These notes are lodged as security for exploratory commitments.

### 6. Remuneration of Officers and Directors

The aggregate direct remuneration paid to directors and officers of the Company during the year is as follows:

	<u>Number</u>	<u>Amount</u>
Directors . . . . .	6	\$ 4,300
Officers, of whom two were also directors . . . . .	3	\$160,860



# *Lochiel Exploration Ltd.*

## **DIRECTORS**

MERVYN S. DEVONSHIRE

Partner, Devonshire, Munro & Co., Chartered Accountants, Calgary, Alberta

ROLAND B. DODWELL

Financial Consultant, Oakville, Ontario

WILLIAM J. MAJOR, Q.C.

Partner, Major Caron & Company, Barristers & Solicitors, Calgary, Alberta

RALPH T. SCURFIELD

President, Nu-West Development Corporation Ltd., Calgary, Alberta

NICHOLAS W. TAYLOR

President of the Company, Calgary, Alberta

WILLIAM A. WORK

Vice President of the Company, Calgary, Alberta

## **OFFICERS**

NICHOLAS W. TAYLOR, President

WILLIAM A. WORK, Vice President

ALBERT H. PFEFFER, Treasurer & Corporate Secretary



# *Lochiel Exploration Ltd.*

## **HEAD OFFICE**

550 - 6th Ave. S.W., Calgary, Alberta T2P 0S2

## **REGISTRARS AND TRANSFER AGENTS**

GUARANTY TRUST COMPANY OF CANADA

311 - 8th Ave. S.W., Calgary, Alberta and

366 Bay Street, Toronto, Ontario

## **BANKERS**

THE TORONTO-DOMINION BANK, Calgary Place, Calgary, Alberta

BANK OF MONTREAL, 140 - 8th Ave. S.W., Calgary, Alberta

## **AUDITORS**

TOUCHE ROSS & CO.

Calgary, Alberta

## **SOLICITORS**

MAJOR CARON & COMPANY

1801, 715 - 5th Ave. S.W., Calgary, Alberta

## **SHARES LISTED (Symbol LHX)**

TORONTO STOCK EXCHANGE

ALBERTA STOCK EXCHANGE







*1976  
Annual  
Report*  
*Lochiel Exploration Ltd.*